

# Creating Your Financial Future

A Financial "Tip" Sheet

2000-6

"Interest never sleeps nor sickens nor dies; it never goes to the hospital; it works on Sundays and holidays; it never takes a vacation...it has no love, no sympathy; it is as hard and soulless as a granite cliff. Once in debt, interest is your companion every minute of the day and night; you cannot shun it or slip away from it; you cannot dismiss it; it yields neither to entreaties, demands, or orders; and whenever you get in its way or cross its course or fail to meet its demands, it crushes you."

J. Ruben Clark, Statesman and U.S. Diplomat

## How Much Debt Is Too Much?

Calculate your degree of indebtedness:

1. List all creditors along with the monthly payments
2. Total the monthly payments and you have your MDP (Monthly Debt Payment)

$$\frac{\text{MDP}}{\text{Monthly Net Income (Take Home Pay)}} = \text{DEBT-TO-INCOME-RATIO}$$

### EXAMPLE:

Total MDP = \$800.00	<u>\$800</u>	
Total Net Income = \$2000.00	\$2000	= .40

Thus, your Debt-to-Income-Ratio = .40 (40%)

### *Bankers' Rule of Thumb:*

1. *Total Indebtedness Rule is a maximum of 40%*
2. *The Mortgage Rule is a payment not to exceed 25% of gross*